



**COUNCIL**

**28 FEBRUARY 2018**

**Report by: THE EXECUTIVE DIRECTOR OF FINANCE**

<b>Subject:</b>	Updated Final Budget 2018-19 and Medium Term Plan to 2021-22
<b>Recommendations:</b>	<p>The recommendations from the Final Budget 2018-19 and Medium Term Plan Cabinet paper from 13<sup>th</sup> February 2018 remain, with the following additions/amendments:</p> <ul style="list-style-type: none"><li>a) That Council approves the Revenue Budget 2018-19, which sets Net Revenue Budget of £441.27m, and notes the Medium Term Plan as set out in the revised Budget Summary for 2018-19 to 2021-22 in Appendix 2 (replaces recommendation (a) and Appendix C from the Final Budget 2018-19 and Medium Term Plan Cabinet paper).</li><li>b) That the revised Reserves Statement Summary as at Appendix 3 be noted (replaces recommendation (i) and Appendix G from the Final Budget 2018-19 and Medium Term Plan Cabinet paper).</li><li>c) That the additional savings proposals for the MTP as set out in Appendix 1 be approved.</li><li>d) Note the Chief Finance Officer's additional Section 25 comments in section 8 of this report.</li><li>e) That Option 2 from the Library Services Review as set out in Appendix 4 is supported and that a Strategy is developed to support the delivery of Northamptonshire Library and Information Service.</li><li>f) That the Council pursue those expressions of interest where interested parties have indicated that they wish to purchase their library building.</li><li>g) That an Independent Library Service contract is developed so that information can be provided to any of the 21 smaller libraries that wish to pursue developing an Independent Library provision.</li><li>h) That a decommissioning plan and timetable is developed and implemented from 1st April 2018 that includes a renewed Library timetable in the remaining libraries focussed on meeting peak customer demand.</li><li>i) That an extended Library to You service is implemented to support customers who find accessing a static library difficult in light of decommissioning of the current mobile library.</li></ul>

	j) That children centre provision continues for a further period of three months in Designated Children Centre libraries whilst proposals for re-provision of these services is prepared.
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## **1. Purpose of Report**

- 1.1 This report is to present additional budget proposals for inclusion in the Medium Term Plan (MTP), following the acceptance of the Section 114 notice issued by the Council's Section 151 Officer on 2nd February 2018, and the external auditor's advisory notice issued on 20th February 2018.

## **2. Section 114 Notice and Expenditure Control Protocol**

- 2.1 The Council has a duty by law, under the Local Government Finance Act 1992, to set a balanced and realistic budget. If it is not able to do so or it appears unlikely to be able to do so then a notice by the Section 151 Officer, in consultation with the Monitoring Officer, must be issued under Section 114 of the Local Government Finance Act 1988 to state that the Council has been unable to set a balanced budget.
- 2.2 In light of the severe financial challenges faced by the Council, and the significant risk that it will not be able to deliver a balanced budget by the end of the current financial year, the decision was made by the Section 151 Officer to issue a Section 114 notice on 2nd February 2018.
- 2.3 The issuing of the Section 114 notice was followed by the immediate introduction of additional spending controls within the Council, meaning that no new expenditure commitments are to be entered into. The exception being for the provision of statutory services, safeguarding vulnerable people, and fulfilling contractual legal obligations.
- 2.4 An emergency expenditure control protocol has been enacted within the Council in relation to new expenditure. All employees are required to comply with this protocol. An approval panel comprising the Chief Executive, Directors, Monitoring Officer and Deputy Section 151 Officer are meeting three times a week to undertake due diligence and review requests for new expenditure to be incurred.
- 2.5 Councillors were required to meet within 21 days of the issuing of the Section 114 notice to discuss the implications. The Council met on 22<sup>nd</sup> February 2018, and agreed to accept the Section 114 notice.

## **3. KPMG Advisory notice**

- 3.1 The Council's external auditors issued an advisory notice on 20th February 2018 under Section 29 and Schedule 8 of the Local Audit and Accountability Act 2014. The notice was noted by members at the Council meeting on 22nd February 2018, and can be read in full, along with the accompanying

Statement of Reasons, on the Council's committee management website as part of the documents for that meeting.

- 3.2 The notice stated that the Council had "begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss of deficiency, further to paragraph 1(1)(b) of Schedule 8" of the Act.
- 3.3 The external auditor formed this view based upon:
  - a) "the expenditure which the Authority intends to treat as capital expenditure for 2018-19 pursuant to the Direction made by the Secretary of State for Housing, Communities and Local Government on 6<sup>th</sup> February 2018 regarding the continuation of the capital receipts flexibility programme; and"
  - b) "The Authority's reliance upon this flexibility for the financial outcomes for years 2016-17 and 2017-18."
- 3.4 The external auditor stated that the notice was being issued "with the intention that the Authority stops, pauses, and considers, the viability and sustainability of the proposed budget and therefore the Council Tax precept for 2018-19. The Authority should use this opportunity to ensure that it is taking properly informed decisions and deploying resources appropriately to achieve its planned outcomes for taxpayers and local people."
- 3.5 The effect of the notice was that the Council was obliged to pause its budget setting process and use the meeting on 22<sup>nd</sup> February to consider the Advisory Notice and Section 114 Notice, rather than discuss the budget as was originally scheduled.

#### **4. Flexible Use of Capital Receipts**

- 4.1 The Secretary of State, through Section 15 (1) of the Local Government Act 2003, gave local authorities the power to utilise capital receipts from the disposal of property, plant and equipment assets, and to spend up to 100% of their fixed asset receipts on the revenue costs of reform projects.
- 4.2 In March 2016, statutory guidance was issued by the Ministry for Housing, Communities and Local Government (MHCLG), which applied from 1 April 2016 to 31 March 2019. The end date of this statutory change was confirmed to be extended to April 2022 through a December 2017 announcement in the Provisional Local Government Finance Settlement.
- 4.3 The Council utilised this flexibility in 2016-17 which resulted in £21.6m of qualifying transformational expenditure being funded through the flexible use of capital receipts in that year.
- 4.4 The scale of the financial challenge faced by the Council in the short, and medium to long term is severe and unprecedented, and therefore it needs to

fundamentally prioritise and reconfigure its services. As a result of this the cost of transformation is estimated to significantly increase year on year to respond to the Council's transformational requirements. The Council is currently finalising its 2017-18 transformational expenditure requirements. For 2018-19 this MTP identifies the need to fund a further £31.0m of transformational expenditure through flexible use capital receipts. This is a £9.9m reduction from what was reported to the February Cabinet meeting due to the additional proposals which have been identified in this report.

- 4.5 Clearly there are significant risks in being reliant on capital receipts at these levels in order to be able to deliver the Council's budget. This led the Council's Section 151 Officer to issue the Section 114 Notice in 2017-18, and was also a significant factor in the issuing of the Advisory notice by the external auditor.
- 4.6 Following the pausing in the Council's budget setting process, as set out in paragraph 3.5 above, the Council has sought to identify further budget proposals and mitigations in 2018-19 in order to reduce the reliance on capital receipts within the MTP.

## **5. Additional Budget Proposals**

- 5.1 In addressing the concerns of the external auditor, the Council has no choice but to consider proposals which have previously been rejected or considered undesirable due to the implications of the service reductions. This is not something that the Council has taken lightly, and it recognises that there will be an impact on service provision both in 2018-19 and in future years. A full list of the additional budget proposals is set out in Appendix 1, together with the risks and impact associated with each proposal. These proposals are summarised below.

### *Reinstatement of savings proposals previously removed*

- 5.2 The proposals in the next section were included in the draft budget and then subsequently removed from the initial final budget (or reduced in value), following consideration of feedback from Budget Scrutiny review and consultation. We have now had to revisit these proposals against the background of the impact of the total package of proposals to create a fair and equitable spread of impact across all service areas. We acknowledge views given in consultation feedback and also the implications set out in the Equality Impact Assessments and any negative impacts will be mitigated where possible.
- 5.3 Regrettably the Council can no longer afford to remove these proposals therefore they have been reinstated in the MTP, with a change to the proposal for the Library Service, in order to achieve savings as stated in the draft budget Option 2 is now recommended.

- **15-006-29 Bus Subsidies**

- **17-006-06 Trading Standards**
- **17-008-01 Library Services**

Updated Equality Impact Assessments regarding the Library proposals can be found at <http://www3.northamptonshire.gov.uk/councilservices/council-and-democracy/budgets-and-spending/Pages/review-of-library-services-in-northamptonshire.aspx>

These outline the impact of Option 2 on people with protected characteristics, and Councillors are reminded to consider this information whilst making their decision.

5.3.1 The specific recommendations for the Library Service are as follows:

#### **5.2.2.1. Library Service Review**

The overall analysis of the consultation feedback on the library service review can be found at Appendix N of the February 13<sup>th</sup> 2018 cabinet papers. The report identifies the results of the response to the Library Options papers. As can be seen 40.11% of respondents agreed or strongly agreed with Option 1, compared to the support for Option 2 of 17.31% and 10 times the amount that supported Option 3 at 3.57%. Whilst Option 1 was the most favoured option out of the three options, 52% did not agree with that option, thus indicating that respondents overall would prefer no change. The case for change was laid out in the options paper and is revisited again in Appendix M of the February 13<sup>th</sup> 2018 cabinet papers which contains a detailed response to themes identified within the libraries consultation. An updated version of this paper is found in Appendix 4.

As a response to the auditors' advisory notice and the current financial situation of the Council, Option 2 is now being recommended.

The recommendations that were prepared to support Option 1 have now been reviewed and changed to deliver Option 2. They are supported with a short narrative that provides further detail about the recommendation.

#### **5.2.2.2. That Option 2 is supported and that a Strategy is developed to support the delivery of Northamptonshire Library and Information Service.**

Following the comprehensive library service review and following the input from the public during the consultation, the library service will need to develop a new strategy which shapes the direction for the medium term. The new Strategy will consider how the Library to You Service can be delivered and how the digital offer should be enhanced to serve the county.

Option 2 will mean that Northamptonshire County Council will have 15 libraries to deliver its statutory duty to provide a comprehensive and efficient library service. Northamptonshire County Council will need to give First for Wellbeing six months' notice to their contract to formally implement this change.

**5.2.2.3. That the Council pursue those expressions of interest where interested parties have indicated that they wish to purchase their library building.**

Throughout the consultation, some communities expressed an interest in purchasing the freehold title to their local library to enable them to operate as an independent library service without needing to meet the ongoing revenue costs associated with taking on a lease of the building. In line with the Council's Asset Management Strategy, it is now right that communities are given the opportunity to progress these conversations as appropriate with the relevant property colleagues.

**5.2.2.4. That an Independent Library Service contract is developed**

The current library service has a number of independent contracts whereby the Library Service offer support to organisations to deliver their independent libraries. This currently includes provision to hospitals and prisons. Similarly, the Library Service supports schools in stocking their libraries by way of a Service Level Agreement. The service is therefore well placed to develop a model contract with a range of different support options from provision of stock alone to provision of a fully staffed service supported by a Library Management System and IT infrastructure to support community Independent Libraries.

If this recommendation is supported, then the Library Service will write to all interested parties with information about the service on offer.

**5.2.2.5. That a decommissioning plan and timetable is developed and implemented from 1st April 2018 that includes a renewed Library timetable in the remaining libraries focussed on meeting peak customer demand.**

Should the first recommendation above be accepted, it is critical that a detailed and sensitive decommissioning plan is developed which takes into account considerations for both customers and staff. It may be preferable to develop a phased approach to the decommissioning of libraries which takes into account some of the property considerations and current staffing limitations. This should be presented as soon as practicable to cabinet for their consideration.

Respondents to the consultation expressed strong views about the length of opening hours, stating that although libraries are open for long hours, often these hours do not correspond with when customers most need to

use the library. Similarly, very many respondents questioned the viability of Sunday opening. Library usage statistics for Sundays suggest that these are often the least used times during the week and that are some of the most costly to staff due to the enhanced payments due on a Sunday. This would enable this staffing resource to be redirected into the core opening hours where there is more customer demand. Similarly by analysing the days and times of peak customer usage, a more sustainable timetable could be arrived at for the 15 libraries which remain in Option 2.

**5.2.2.6. That an extended Library to You service is implemented to support customers who find accessing a static library difficult in light of decommissioning of the current mobile library.**

There is no statutory requirement for mobile libraries. The current mobile library is out of lease and beyond reasonable economical repair. It incurs significant costs on a monthly basis to keep it on the road. In light of the Section 114 spending controls, the mobile library has now been withdrawn from service, and a decommissioning plan has been implemented. Customers are being contacted and arrangements made to collect those books which are still on loan.

To continue to provide a library service to customers who are unable to visit a static library, the mobile library service will be replaced with the volunteer run 'Library to You' service. This service is well established and has run in its current form for many years, providing a link for people across the county who are unable to visit the libraries in person.

Discussions with the community sector have been initiated to explore the possibility of linking with volunteer driver schemes. These schemes currently provide transport for medical appointments and could be extended to offer a 'You to the Library' service, where customers would be transported to their nearest library to choose reading materials and take part in library activities – thus increasing social inclusion and wellbeing.

**5.2.2.7. That children centre provision continues for a further period of three months in Designated Children Centre libraries whilst proposals for re-provision of these services is prepared.**

Respondents to the consultation felt strongly about the impact that reducing universal children centre provision from libraries would have. There were many case studies which highlighted the value that universal access to these services has for individuals and for communities. Work has been undertaken regarding how access to universal children centre provision would be reconfigured this will be published and implemented by July 2018.

*Pay and Allowances*

- 5.4 The draft budget included the provision of a 1% pay award for staff, which was increased to 2% in the initial final budget papers. Regrettably this is not affordable and therefore the pay award has been removed in the final MTP in 2018-19 and in the planning assumptions for subsequent years. The Council recognises that this will be a disappointment to staff, who undertake extremely difficult work in often challenging circumstances. It is acknowledged that may impact upon the Council's ability to recruit and retain staff.
- 5.5 Car mileage allowance expenses and travel plan activity will be reviewed to include consultation with staff and unions, and staff will be encouraged to utilise the Council's pooled cars rather than using their own vehicles and to dial in remotely to meetings where possible in order to minimise non-essential travel.
- 5.6 Councillor allowances will be reduced by 10%, with special allowances reduced by 20%. Consultation will be required with the Independent Remuneration Panel in order to implement this, but this process will be expedited as much as possible.

#### *Utilisation of additional grant funding*

- 5.7 An additional £1.7m grant for Adults was announced in the Final Local Government Finance Settlement to support adult pressures and demand. This was previously approved as earmarked reserves to help mitigate and ease the rising pressures on care and costs of care in the service but will now be released as a mitigation for the financial challenges and growth pressures built into service budgets.

#### *Service Provision*

- 5.8 The remaining proposals are service reductions across the Council each with potential service delivery risks and dependencies which will require careful management to ensure each proposal is delivered in full, on time and where possible the direct and indirect implications are minimised.

#### *Spending Controls*

- 5.9 The emergency expenditure controls implemented following the issuing of the Section 114 notice will be retained for 2018-19 and will remain in place until further notice. The Council is closely monitoring expenditure to ensure that all staff comply with the expenditure protocols. Whilst it is yet to be determined the full year benefit of these additional controls, it is estimated that expenditure will reduce by at least £1.2m as a result. This will be closely monitored throughout 2018-19.

## **6. Revised Capital Receipts Requirement**

- 6.1 The additional proposals outlined above and in Appendix 1 total £9.9m which are being used to reduce the Council's capital flexibilities requirement from £40.9m down to £31.0m. Whilst this is still a challenging target for capital receipts, the Council considers it to be achievable.

## 7. Budget Summary

- 7.1 The Budget Summary in Appendix 2 has been restated to incorporate these additional budget proposals, and the reduction to capital receipts requirement. The net revenue budget figure remains unchanged at £441.27m for 2018-19.
- 7.2 The Council Tax figures remain unchanged from the initial Final Budget papers, with a Band D Council Tax figure of £1,236.35 for 2018-19. This is based upon a 5.98% increase, including Adult Social Care Precept of 3%. For completeness the Council Tax banding figures are represented below:

<b>Council Tax Band</b>	<b>Council Tax £</b>	<b>Adult Social Care Precept £</b>	<b>Total £</b>
A	764.42	59.81	824.23
B	891.83	69.78	961.61
C	1,019.23	79.75	1,098.98
D	1,146.63	89.72	1,236.35
E	1,401.43	109.66	1,511.09
F	1,656.24	129.60	1,785.84
G	1,911.05	149.53	2,060.58
H	2,293.26	179.44	2,472.70

## 8. Section 25 Observations on Financial Sustainability

- 8.1 Northamptonshire is on the leading edge of a set of extremely difficult decisions that will face all top tier local authorities. Funding is declining at the same time as need and cost are rising and this means that county councils will be seen by their residents to withdraw from services aimed at the population as a whole in favour of the services required by those most in need.
- 8.2 The extent of this need, and the cost of meeting it, is largely invisible to most of the population. This calculus places the Members of the County Council in the position of considering changes to the 2018-19 budget that are urgent but extremely difficult to take.
- 8.3 In these unprecedented circumstances the set of recommendations in this paper represents decisions that are unavoidable if the County Council is to

aim for financial sustainability. Difficult as they are they may not be sufficient and Members should be aware that further changes may be required during the 2018-19 year and as we approach the years to follow.

- 8.4 The fact that this further set of reductions has been derived with great urgency carries risks of accuracy and challenge. Even so they are recommended as a difficult, but necessary step towards financial sustainability in the medium term.

## 9. Alternative Options Considered

- 9.1 The Council is required by law to set to set its Council Tax precept by 1st March 2018 and a balanced budget by 11th March 2018.
- 9.2 Given that the advisory notice was issued on 20<sup>th</sup> February 2018, Members and Officers have considered the achievability of each additional proposal, and the impact on service delivery in the very short timescales available.

## 10. Risk and Business Continuity Management

- 10.1 The robustness of the proposed estimates and the adequacy of the proposed reserves must be addressed in the formal report to be made in February 2018 to both the Cabinet and the Council by the Chief Financial Officer (Section 151 Officer). This report is required under Section 25 of the Local Government Act 2003 prior to the Council agreeing its 2018-19 budget. The Section 25 report is included in the initial Final Budget papers.
- 10.2 The task of planning how the Council spends its financial resources, in an ever increasing challenging financial climate, inevitably results in higher budget delivery risks. The Cabinet must have regard to the Council's risk profile as set out in the risk registers, ensuring that budgets and the Council's financial reserves are sufficient to mitigate risks to acceptable levels. The Cabinet should also be satisfied that all budget proposals are sufficiently robust and deliverable.

### a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
The Council is unable to deliver a balanced Budget for each year of the Medium Term Financial Plan: Proposals identified for 2018-19 will not be fully deliverable within the timeline available	Robust financial management processes to review and fully develop the following years Budget proposals with action plans in place for regular monitoring via the Budget Tracker.	Amber
Deliverability of savings proposals to address any	Robust Budget Setting and Planning processes in place to Provide Officers	Amber

estimated funding shortfall over the period of the Medium Term	with the necessary support in the development of strategic ideas which are linked to the Council Plan.	
The ability to fully identify the appropriate level of transformational expenditure required for capital receipts to fund.	A comprehensive review is being undertaken to support the Council's Flexible Use of Capital Receipts strategy.	Amber

b) Risk(s) associated with not undertaking the proposal

Risk	Mitigation	Residual Risk
The Council will not be in position to manage the impact of reduced funding and increased demand on services	Regular review of the funding and pressures through financial monitoring and forecasting to provide intelligence within the planning process.	Amber
Overreliance on capital receipts to balance the budget	The additional proposals set out within this paper reduce the Council's capital receipt requirement for 2018-19.	Amber

**11. List of Appendices**

- Appendix 1* – *List of Additional Budget Proposals*
- Appendix 2* – *Revised Budget Summary*
- Appendix 3* – *Revised Reserves Summary*
- Appendix 4* – *Revised Libraries Proposal*